

Fitchburg Gas and Electric Light Company
Electric Reconciliation Mechanism and Inflation
Adjustment Filing

filed with

The Commonwealth of Massachusetts
Department of Telecommunications and Energy

D.T.E. 03 - 115

November 26, 2003

Fitchburg Gas and Electric Light Company
Electric Reconciliation Mechanism and Inflation Adjustment Filing
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FITCHBURG GAS AND ELECTRIC LIGHT COMPANY

**Electric Reconciliation Mechanism and
Inflation Adjustment Filing**

D.T.E. 03-115

**TESTIMONY AND SCHEDULES
OF
KAREN M. ASBURY**

**ON BEHALF OF
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY**

**Presented to the
Massachusetts Department of Telecommunications and Energy**

November 26, 2003

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1 **I. INTRODUCTION**

2 Q. Please state your name and business address.

3 A. My name is Karen M. Asbury. My business address is 6 Liberty Lane West,
4 Hampton, New Hampshire, 03842-1720.

5

6 Q. By whom are you employed and what is your title and job responsibility?

7 A. I am Director of Regulatory Services for Unitil Service Corp. ("Unitil Service"),
8 an affiliate of Fitchburg Gas and Electric Light Company ("FG&E"). Both
9 companies are members of the Unitil System and subsidiaries of Unitil
10 Corporation. Unitil Service provides various professional services, including
11 financial, regulatory and other administrative services to FG&E, as well as to
12 Unitil Corporation's other subsidiaries.

13

14 Q. Please briefly describe your educational and business experience.

15 A. In 1987, I graduated *magna cum laude* from the University of New Hampshire
16 with a Bachelor of Science Degree in Mathematics. I joined Unitil Service in
17 January 1988 and have held various positions in the regulatory/rate department. I
18 have been involved in regulatory compliance and rate analysis for electric and gas
19 utilities for over fifteen years. In my current position, I am responsible for
20 directing regulatory filings, pricing research and analysis, pricing design, tariff

1 administration, revenue requirements and cost of service calculations, economic
2 analyses, customer research, and other analytical services. I have attended several
3 industry seminars and courses, including the Edison Electric Institute's Electric
4 Rate Advanced Course at Indiana University.

5
6 Q. Have you previously testified before the Department of Telecommunications and
7 Energy ("Department")?

8 A. Yes, I have previously testified on numerous occasions before the Department,
9 including D.T.E. 97-115/98-120, FG&E's Electric Restructuring Plan
10 ("Restructuring Plan"), D.T.E. 99-110, FG&E's Electric Reconciliation
11 Mechanism and Inflation Adjustment Filing for 2000 ("D.T.E. 99-110"), and
12 FG&E's most recent annual reconciliation filing for 2002 (D.T.E. 02-84). I have
13 also testified before the New Hampshire Public Utilities Commission and
14 participated in the preparation of filings for the Federal Energy Regulatory
15 Commission.

16
17 **II. PURPOSE AND BACKGROUND**

18 Q. What is the purpose of your testimony in this proceeding?

19 A. First, I will provide an overview of FG&E's filing in this proceeding, including a
20 summary of FG&E's proposed tariffs and an introduction of each of FG&E's

1 witnesses that have pre-filed testimony in support of these changes. Next, I will
2 present and explain FG&E's reconciliation models and supporting calculations
3 used to reconcile the costs and actual revenues for the period October 2002
4 through September 2003 for the Standard Offer Service Charge, Default Service
5 Charge, External Transmission Charge, and Internal Transmission Charge. I will
6 also explain these models and supporting calculations used to forecast the costs
7 and revenues for the period October 2003 through December 2004. Finally, I will
8 support FG&E's calculation of its External Transmission Charge and its Internal
9 Transmission Service Cost Adjustment.

10

11 Q. Please provide a brief background of FG&E's annual electric reconciliation
12 filings.

13 A. On January 15, 1999, the Department approved FG&E's Restructuring Plan in
14 D.P.U./D.T.E. 97-115/98-120. On May 5, 1999, July 30, 1999 (as revised on
15 August 27, 1999), and on December 22, 1999, FG&E filed rate changes for its
16 reconciling rate mechanisms in accordance with its plan. The December 22, 1999
17 filing was docketed as D.T.E. 99-110.

18

19 Q. Please provide a summary of that docket?

1 A. In D.T.E. 99-110, the Department undertook a substantive review of FG&E's
2 filing, ruling that this proceeding would be considered FG&E's first reconciliation
3 filing and that the reconciliation period under review would be from March 1,
4 1998 through October 31, 1999. The Department issued its order in this docket
5 on October 18, 2001, ultimately directing FG&E to reconcile its cost adjustment
6 mechanisms for 1998, 1999, 2000, and 2001 based on its findings. On December
7 3, 2001, FG&E filed its next annual reconciliation filing in accordance with the
8 Department's directives, which was docketed as D.T.E. 01-103.

9
10 Q. Please summarize the results of that proceeding?

11 A. On August 15, 2002, FG&E entered into a settlement with the Attorney General,
12 which was subsequently approved by the Department in October 2002. The
13 settlement resolved all outstanding issues related to the calculation and
14 reconciliation of the Transition Charge, the Internal Transmission Charge,
15 External Transmission Charge, Standard Offer Service Charge, and the Default
16 Service Charge for the period March 1998 through September 2001, and the
17 resetting of rates for each of the reconciling mechanisms for effect January 1,
18 2002. The Settling Parties also agreed that the reconciliation methods and
19 calculations to be used by FG&E in its future reconciliation filings shall be in
20 accordance with its compliance filing as modified by the terms of this Settlement.

1

2 Q. When was FG&E's compliance filing made?

3 A. On December 22, 2002, FG&E filed its compliance filing, which was also its next
4 annual reconciliation filing, reflecting a reconciliation of costs and revenues for
5 the period October 2001 through September 2002. In this filing, FG&E also
6 implemented changes as a result of its Electric Division's most recent base rate
7 proceeding, D.T.E. 02-24/25. The Department docketed the reconciliation filing
8 as D.T.E. 02-84 and allowed rates to become effective on January 1, 2003, subject
9 to further investigation. The Department's investigation was conducted during
10 2003, and a final order has not yet been issued. A limited number of issues were
11 raised by the parties during this investigation.

12

13 Q. Can you please summarize the issues raised by the Attorney General in its brief?

14 A. Yes, there are three. First, the Attorney General raised a concern with a projected
15 discrepancy of \$450,000 which he alleged to be an under-collection from the G-3
16 class in uniform transition charge revenues. The Attorney General stated that the
17 Department should require FG&E to monitor the discrepancy and implement a
18 class-specific transition charge adjustment in 2005 if the actual figures for 2003
19 confirm the projected shortfall.

20

1 Second, the Attorney General claimed that FG&E miscalculated its cash working
2 capital for purchased power costs, and that this miscalculation was attributable to
3 a one-day difference in FG&E's lead payment calculation. The Attorney General
4 argued that the Department should require FG&E to increase its lead by one day,
5 resulting in a net lag of 12.49 days.

6
7 The third issue concerned FG&E's recovery of congestion costs through its
8 External Transmission Charge. The Attorney General stated that under FG&E's
9 supply contract, the seller is responsible for congestion costs and the Department,
10 therefore, should deny FG&E's request to recover congestion costs for which the
11 supplier is responsible.

12
13 Q. How have these outstanding issues been addressed in this filing?

14 A. Given that the outcome of the previous reconciliation proceeding is still pending
15 before the Department, FG&E has not made any changes with respect to its
16 treatment of the issues raised above. However, FG&E has analyzed its 2003 year-
17 to-date data regarding the Attorney General's concern with the discrepancy or
18 alleged under-collection of the Transition Charge. The results are described in the
19 Testimony of Douglas J. Debski.

1 Q. Can you please summarize the changes implemented as result of the Department's
2 Order in D.T.E. 02-24/25?

3 A. Yes, as fully described in last year's filing, FG&E: 1) included a cash working
4 capital component in its Standard Offer Service Charge, Default Service Charge,
5 and External Transmission Charge; 2) applied the benefits produced by its
6 deferred tax balances arising from accrued electric revenues as an offset against
7 the carrying charges for the Standard Offer Service and Default Service Charge;
8 and 3) included generation-related uncollectibles in the Standard Offer Service
9 Charge and Default Service Charge.
10

11 Q. Does FG&E's current filing continue to reflect these changes?

12 A. Yes. Please note however that during the hearing in D.T.E. 02-84 on April 7,
13 2003, FG&E agreed to reduce the net lag for working capital from its initial
14 proposal of 15.74 days to 13.49 days. This change is reflected in FG&E's filing.
15

16 **III. DESCRIPTION OF THE FILING**

17 Q. Please describe the current filing.

18 A. Pursuant to the Restructuring Act and FG&E's Electric Restructuring Plan,
19 FG&E's current filing is designed to implement FG&E's 2004 adjustable rate
20 mechanisms. With this filing, FG&E submits tariffs for its Residential Delivery

1 Service (Schedule RD-1, M.D.T.E. No. 104), Low-Income Residential Delivery
2 Service (Schedule RD-2, M.D.T.E. 105), General Delivery Service (Schedule GD,
3 M.D.T.E. No. 106), and Outdoor Lighting Delivery Service (Schedule SD,
4 M.D.T.E. No. 107). These tariffs reflect a revised Transition Charge calculated to
5 maintain the inflation-adjusted rate cap, while considering changes to FG&E's
6 Standard Offer Service Charge, Internal Transmission Service Cost Adjustment,
7 and External Transmission Charge. FG&E is also proposing changes to its
8 Standard Offer Service Fuel Adjustment, which is set outside of the rate cap.

9
10 This filing also presents the reconciliation of costs and revenues for the period
11 October 2002 through September 2003, and forecast for October 2003 through
12 December 2004, for FG&E's reconciling rate mechanisms.

13
14 Q. What is the overall impact of the proposed rate changes?

15 A. The Department's approval of FG&E's proposed tariffs and rate changes will
16 result in a bill reduction of 0.4% to a typical residential customer using 500 kWh
17 per month on Standard Offer Service. General Service customers will see similar
18 rate reductions depending on their particular energy usage characteristics. These
19 rate reductions primarily reflect a decrease in the Standard Offer Service Fuel
20 Adjustment (SOSFA), which is outside the legislative rate cap constraint.

1 Changes in the SOSFA directly impact FG&E's overall rate levels (up or down)
2 during the time period when changes in FG&E's total rate levels are otherwise
3 constrained by the inflation-adjusted rate cap.

4
5 A residential customer using 500 kWh per month on Default Service will see a
6 bill reduction of 1.6%. General Service customers will see similar rate reductions
7 depending on their particular energy usage characteristics. These reductions are
8 primarily due to a lower Transition Charge.

9

10 Q. Please describe the primary parts of this filing.

11 A. This filing contains:

- 12 1. Testimony and Schedules of Karen M. Asbury (Exh. FGE-KMA-1) –
13 supporting the reconciliation of costs and revenues for 2003 and
14 addressing the cost and revenue forecast for 2004 for the Standard Offer
15 Service Charge, Default Service Charge, External Transmission Charge,
16 and Internal Transmission Service Cost Adjustment. My testimony also
17 provides the computation of proposed rates for the External Transmission
18 Charge and Internal Transmission Service Cost Adjustment.
- 19 2. Testimony and Schedules of Robyn A. Tafoya (Exh. FGE-RT-1) -
20 supporting the reconciliation of costs and revenues for 2003 and

1 addressing the cost and revenue forecast for 2004 for the Transition
2 Charge. Ms. Tafoya also supports the Annual Transition Charge model
3 which is provided in the standardized format.

4 3. Testimony and Schedules of Douglas J. Debski (Exh. FGE-DJD-1) -
5 addressing rate design and calculation of the proposed Transition Charge,
6 bill impacts and related exhibits, including justification for the inflation
7 adjustment and retail rate cap constraint required under the Restructuring
8 Act. Mr. Debski also describes and supports FG&E's 2004 Standard Offer
9 Service Fuel Adjustment, which lies outside the rate cap constraint.
10 Finally, Mr. Debski describes a change to the computation of the Farm
11 Credit that is required by the Restructuring Act.

12 4. Additional Appendices - providing support and understanding to the filing
13 in the form of Definitions and Acronyms useful to understanding the filing
14 (Appendix A) and FG&E's Restructuring Plan (Appendix B). The
15 Department requires these materials to be filed with the annual
16 reconciliation.

17
18 Q. Has FG&E included its workpapers as a part of this filing?

19 A. Yes, each witness has attached a copy of his or her workpapers as a schedule to
20 their respective testimony.

1

2 Q. Has FG&E included a Summary Table of Reconciliation Charges as required by
3 D.T.E. 99-110, that shows the starting and ending balances of the current
4 reconciliation year for all charges?

5 A. Yes. The Summary Table of Reconciliation Charges is provided in Schedule
6 KMA-1.

7

8 Q. What other schedules do you present as part of your testimony?

9 A. I present the following schedules, in addition to Schedule KMA-1:

10 Schedule KMA-2 – Monthly Standard Offer Service Reconciliation

11 Schedule KMA-3 – Monthly Default Service Reconciliation

12 Schedule KMA-4 – Monthly External Transmission Charge Reconciliation

13 Schedule KMA-5 – Monthly Internal Transmission Charge Reconciliation

14

15 Q. Do these schedules comply with all other aspects of the Department's Orders
16 issued in FG&E's previous reconciliation filings?

17 A. Yes, Schedules KMA-2 through KMA-5 comply with previous Department
18 directives from D.T.E. 01-103 and D.T.E. 99-110 pertaining to the calculation and
19 reconciliation of these charges.

IV. STANDARD OFFER SERVICE CALCULATION AND RECONCILIATION

Q. What are the Standard Offer Service Charge and the Standard Offer Service Adjustment?

A. The Standard Offer Service (“SOS”) Charge and the Standard Offer Service Revenue Reconciliation Adjustment together recover FG&E’s direct SOS Costs. There was an interim period during which FG&E supplied energy from its existing portfolio to retail customers, beginning March 1, 1998. In particular, during the period of March 1, 1998 through February 28, 1999, FG&E provided SOS from its own power supply portfolio in accordance with its Restructuring Plan (Appendix B), which at that time had been approved on an interim basis by the Department.

Q. Does FG&E continue to provide SOS service?

A. No, it does not. In March of 1999, FG&E began acquiring SOS – pursuant to a fully competitive bidding process -- from Constellation Power Source under a contract approved by the Department. D.T.E. 97-115/98-120 (1999).

Q. Please match the costs that have been included in the SOS mechanism with the associated sections of FG&E’s approved Restructuring Plan and other relevant orders. Also, provide the location of these costs in your schedules.

- 1 A. This information is provided in Table KMA-1, below. The table only includes
2 cost elements that apply in the period being presented.

TABLE KMA-1		
Line #	Costs from November 26, 2003 Standard Offer Service Reconciliation SCHEDULE KMA-2, Pages 4-5	Correlation to Restructuring Plan or subsequent orders
5.	Cost of Constellation Power Source Contract	❖ See FG&E's Restructuring Plan, Appendix B, Tab D, Page V2 – V4 for the approved competitive acquisition of power supply for SOS. Consistent with the Plan, FG&E sought and received approval for its competitively bid standard offer service contract with Constellation Power Source in Docket 98-120. D.T.E./D.P.U. 97-115/98-120 (1999).
6.	Renewable Energy Certificates	❖ The title to or claim for the generation attributes associated with a Renewable Generator that is compliant with the definition of a New Renewable Generation Source as found in 225 CMR 14.00 – Renewable Energy Portfolio Standard. FG&E began incurring these costs in January 2003. Filed in D.T.E. 02-84. See FG&E Tariff M.D.T.E. No. 99.
7.	Working Capital	❖ Recovery provided per DTE Order dated December 2, 2002 in DTE 02-24/25. ❖ See SCHEDULE KMA-2, Page 6 of 8 for the calculation of Working Capital.
8.	Bad Debt Costs	❖ Recovery provided per DTE Order dated December 2, 2002 in DTE 02-24/25. ❖ See SCHEDULE KMA-2, Page 8 of 8 for calculation of Standard Offer Service bad debt allocation factor.

3

4 Q. What reconciliation period is included in this filing?

5 A. The filing includes actual costs and revenues from January 2002 through
6 September 2003 and estimated data from October 2003 through December 2004.

1

2 Q. For what period has the Department approved cost recovery?

3 A. The Department has approved recovery of costs through September 2001 (D.T.E.
4 01-103-A at 7). Costs from October 2001 through September 2002 were
5 reviewed in D.T.E. 02-84, which remains pending. Since the cost data from
6 October 2002 through December 2002 are subject to review as part of this filing,
7 rather than present partial year data, FG&E is presenting the full year.

8

9 Q. Are there any changes to the presentation of the cost recovery mechanisms from
10 that provided in D.T.E. 01-103?

11 A. No, except that, as discussed below, an additional page is included to show the
12 development of the allocation factor for generation-related bad debt.

13

14 Q. What is FG&E's proposed Standard Offer Service Revenue Reconciliation
15 Adjustment ("SOSRRA") for 2004?

16 A. FG&E proposes that its SOSRRA be \$0.00000 per kWh.

17

18 Q. Is there a year-end balance in the Standard Offer Service account?

19 A. Yes.

20

1 Q. If there is a year-end balance in this account, why has FG&E proposed that the
2 Department set a rate of \$0.00000 per kWh?

3 A. The Transition Charge has a much higher year-end deferral and has a higher
4 interest charge on deferrals than Standard Offer Service. Since there is not
5 enough “headroom” under the rate cap established by the Electric Restructuring
6 Act to collect the entire balance in both accounts, FG&E proposes to continue to
7 prioritize its recoveries in order to collect first the costs that are more expensive to
8 customers (e.g., the under-collection in the Transition Charge account). By doing
9 so, FG&E will lessen the impact on customers in the future by eliminating the
10 balance with the higher carrying charge. FG&E believes this is the most
11 reasonable method for ensuring the least cost to customers, while at the same time
12 adhering to the requirements of the Electric Restructuring Act’s price cap.

13

14 Q. What would the SOSRRA be if there were no rate level constraints?

15 A. As shown on Schedule KMA-2, Page 3, the indicated SOSRRA is \$0.01165 per
16 kWh.

17

18 Q. What is the base Standard Offer Service rate effective January 1, 2004?

1 A. In accordance with FG&E's Standard Offer Service Tariff, M.D.T.E. No. 99, the
2 base Standard Offer Service rate increases from \$0.04700 per kWh to \$0.05100
3 per kWh.

4
5 Q. Please describe Schedule KMA-2.

6 A. Schedule KMA-2 is FG&E's Monthly Standard Offer Service Reconciliation.
7 This schedule contains 8 pages. Pages 1 and 2 provide the calculation of interest
8 and monthly deferrals for 2002 through 2004. As discussed above, page 3
9 provides the calculation of the indicated SOSRRA. Pages 4 and 5 provide the
10 monthly cost detail. Page 6 provides the calculation of working capital costs.
11 Page 7 provides a forecast of revenues for the period October 2003 through
12 December 2004. Page 8 provides the updated bad debt allocation factor for SOS.
13 Consistent with the Department's determination in D.T.E. 99-110, for purposes of
14 reconciliation, FG&E has provided actual data through September 2003. The
15 remainder is forecast.

16
17 Q. Please describe Page 8 in further detail.

18 A. Page 8 provides the updated bad debt allocation factor for SOS. As provided for
19 in FG&E's SOS tariff, M.D.T.E. No. 99 and the Department's Order in D.T.E. 02-
20 24/25, the allocation factor is required to be updated annually in FG&E's

1 reconciliation proceedings. The allocation factor used by FG&E beginning
2 December 2002 through December 2003, as reflected in D.T.E. 02-84, is based on
3 2001 calendar year data. The allocation factor for the January-to-December 2004
4 period has been updated and is based on 2002 calendar year data. In future filings,
5 FG&E would continue to update its allocation factor on data from the prior
6 calendar year.

7

8 Q. What is the expected balance at the end of 2004?

9 A. With the proposed SOSRRA of \$0.00000 per kWh effective January 1, 2004, the
10 balance is projected to be an under-collection of \$3,268,478, as shown on Page 2.

11

12 Q. In D.T.E. 02-40-B, the Department directed each distribution company, in all
13 future default service and standard offer service filings, to fully describe the
14 manner in which it has complied, or intends to comply, with its Renewable
15 Portfolio Standards ("RPS") obligations. Please describe FG&E's compliance
16 with respect to its RPS obligations.

17 A. With respect to Default Service, FG&E explained its compliance plan in detail in
18 its October 22, 2003 filing in D.T.E. 99-60, in which it provided the results of its
19 competitive solicitation for the period beginning December 1, 2003. In summary,
20 FG&E intends to purchase qualifying Renewable Energy Credits ("RECs")

1 directly from the market or under a process that is separate from its Default
2 Service solicitations.

3
4 With respect to Standard Offer Service, as indicated in D.T.E. 02-84, FG&E
5 entered into a contract with CSG Services to fulfill its 2003 obligations. FG&E's
6 future compliance strategy is the same for both Default Service and Standard
7 Offer Service. FG&E has and will continue to regularly test the market through a
8 variety of means (issuing and responding to Requests For Proposals, use of
9 brokers, direct negotiations) for as long as it has an outstanding compliance
10 obligation.

11
12 FG&E believes that the market for Massachusetts qualifying RECs is currently
13 illiquid, and that by the time FG&E is required to demonstrate compliance,
14 opportunities may arise to purchase RECs either from facilities that are not at the
15 moment registered as qualifying Massachusetts new renewable facilities or from
16 entities who come to have excess RECs after meeting their obligations. FG&E
17 also expects that it may be able to receive more favorable RECs pricing if the
18 periods for which RECs are sought are flexible. For example, FG&E's ability as a
19 load serving entity to bank RECs in its New England Generation Information
20 System account is expected to allow FG&E to utilize the RECs it acquires

1 efficiently, rather than requiring pricing based on a specific delivery period.
2 FG&E also expects that combining the volumes of service under its Default
3 Service and Standard Offer Service would yield better pricing opportunities in the
4 market.

5

6 **V. DEFAULT SERVICE CHARGE AND RECONCILIATION**

7 Q. What is the Default Service Charge and what is it intended to accomplish?

8 A. The Default Service Charge recovers costs approved by the Department as part of
9 FG&E's Restructuring Plan (Appendix B, Tab D, Page IV.5). The Default Service
10 Charge reflects the cost of acquiring power supply from the competitive market.

11

12 Q. How has FG&E acquired the Default Service supply that it has sold under this
13 rate?

14 A. Beginning December 2000, FG&E has acquired its Default Service supply
15 through a Department-approved competitive market solicitation.

16

17 Q. Please match the costs that have been included in the Default Service mechanism
18 with the associated sections of FG&E's approved Restructuring Plan and other
19 relevant orders. Also, provide the location of these costs in your schedules.

- 1 A. This information is provided in Table KMA-2, below. The table includes only
2 cost elements that apply in the period being presented.

TABLE KMA - 2		
Line #	Costs from November 26, 2003 Default Service Reconciliation SCHEDULE KMA-3, Pages 3 and 4	Correlation to Restructuring Plan or subsequent orders
8.	Sales for Resale (adjustments in December 2002 and February 2003)	<ul style="list-style-type: none"> ❖ When Constellation began serving the SOS load, beginning March 1, 1999, sales for resale are recovered and reconciled in the Default Service Charge, during the period that FG&E continued to manage a portfolio to supply Default Service (March ,1999 - December, 2000). ❖ See FG&E's Restructuring Plan, Appendix B, Tab D, Page V2, item (2) for the approved description of FG&E's use of its power supply portfolio to provide SOS and DS prior to that load being served by external suppliers. ❖ See also DTE Order dated December 2, 2002 in DTE 02-24/25 in which the Department indicated it will consider recovery of costs associated with power supply expenses in its reconciliation filing.
9.	Default Service Supplier Costs	<ul style="list-style-type: none"> ❖ Beginning December, 2000 FG&E received approval to use an external Default Service supplier that was acquired through a competitive market solicitation. These costs represent the cost of Default Service supplied by external Default Service suppliers.
10.	Working Capital	<ul style="list-style-type: none"> ❖ Recovery provided per DTE Order dated December 2, 2002 in DTE 02-24/25. ❖ See SCHEDULE KMA-3, page 5 of 7 for the calculation of Working Capital.
11.	Bad Debt Costs	<ul style="list-style-type: none"> ❖ Recovery provided per DTE Order dated December 2, 2002 in DTE 02-24/25. ❖ See SCHEDULE KMA-3, page 7 of 7 for calculation of the bad debt allocation factor.
12.	Renewable Energy Certificates	<ul style="list-style-type: none"> ❖ The title to or claim for the generation attributes associated with a Renewable Generator that is compliant with the definition of a New Renewable Generation Source as found in 225 CMR 14.00 –

		Renewable Energy Portfolio Standard. Prior to December 2003, FG&E's Default Service provider was responsible for these costs. Recovery approved in D.T.E. 99-60, October 30, 2003. See FG&E Tariff M.D.T.E. No. 103.
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1

2 Q. What reconciliation period is included in this filing?

3 A. The filing includes actual costs and revenues from January 2002 through
4 September 2003, and estimated data from October 2003 through December 2004.

5

6 Q. For what period has the Department approved cost recovery?

7 A. The Department has approved recovery of costs through September 2001 (D.T.E.
8 01-103-A at 7). Costs from October 2001 through September 2002 were
9 reviewed in D.T.E. 02-84, which remains pending. Since cost data for October
10 2002 through December 2002 are required as part of this filing, rather than present
11 partial year data, FG&E is presenting the full year.

12

13 Q. Are there any changes to presentation of the cost recovery mechanisms from that
14 provided in D.T.E. 01-103?

15 A. No, except that, as discussed below, an additional page is included to show the
16 development of the allocation factor for generation-related bad debt.

17

18 Q. What is FG&E's proposed Default Service Adjustment for 2004?

1 A. FG&E proposes that its Default Service Adjustment be \$0.00000 per kWh.

2

3 Q. Is there a year-end balance in the Default Service account?

4 A. Yes.

5

6 Q. If there is a year-end balance in this account, why has FG&E proposed that the
7 Department set a rate of \$0.00000 per kWh?

8 A. The Transition Charge has a much higher year-end deferral and has a higher
9 interest charge of deferrals than Default Service. Similar to the discussion above
10 concerning SOS, since there is not enough headroom under the rate cap
11 established by the Electric Restructuring Act to collect the entire balance in both
12 accounts, FG&E proposes to continue to prioritize the recovery in order to collect
13 first the costs that are more expensive to customers (e.g., the under-collection in
14 the Transition Charge account).

15

16 Q. How is FG&E's Default Service Charge set?

17 A. Currently, the Default Service Charge is set at the same time that FG&E selects a
18 winning bidder from periodic solicitations in compliance with Department
19 directives. The Default Service Charge is filed with the Department for approval
20 and reflects the supplier cost, RECs cost, and losses. On November 17, 2003, the

1 Department issued an order identifying other costs to be included in default
2 service rates and requiring distribution companies to submit compliance filings
3 within six weeks.

4
5 Q. Please describe Schedule KMA-3.

6 A. Schedule KMA-3 is FG&E's Monthly Default Service Reconciliation. This
7 schedule contains 7 pages. Pages 1 and 2 provide the calculation of interest and
8 monthly deferrals for 2002 through 2004. Pages 3 and 4 provided the monthly
9 cost detail. Page 5 provides the calculation of working capital costs. Page 6
10 provides a forecast of revenues for the period October 2003 through December
11 2004. Page 7 provides the updated bad debt allocation factor for Default Service.
12 As discussed above, the allocation factor is required to be updated annually in
13 FG&E's reconciliation proceedings. Consistent with the Department's
14 determination in D.T.E. 99-110, for its reconciliation, FG&E has provided actual
15 data through September 2003. The remainder is forecast.

16
17 Q. What is the expected balance at the end of 2004?

18 A. The balance is projected to be an under-collection of \$1,640,596, as shown on
19 Page 2.

20

1 **VI. EXTERNAL TRANSMISSION CHARGE**

2 Q. What is the External Transmission Charge?

3 A. As provided in FG&E's current tariff, M.D.T.E. No. 97, the External
4 Transmission Charge recovers all external transmission costs that are billed to
5 FG&E by any other transmission provider, other regional transmission or
6 operating entities, such as NEPOOL, a regional transmission group, an
7 independent system operator, or other regional bodies. It also recovers charges
8 related to the stability of the transmission system. Costs beyond the NEPOOL
9 PTF system are the direct obligation of the Competitive Suppliers serving FG&E's
10 customers. Effective December 1, 2002, the External Transmission Charge also
11 recovers working capital costs.

12

13 Q. Please match the costs that have been included in the External Transmission
14 Charge mechanism with the associated sections of FG&E's approved
15 Restructuring Plan and other relevant orders. Also, provide the location of these
16 costs in your schedules.

17 A. This information is provided in Table KMA-3, below.

18

19

20

21

22

TABLE KMA-3		
Column	Costs from November 26, 2003, Reconciliation Filing SCHEDULE KMA-4, Pages 1 through 3	Correlation to Restructuring Plan
A.	ISO EXPENSES - EFC Relabeled ISO ADMINISTRATIVE COSTS - Effective October 2001	❖ See FG&E approved Restructuring Plan, Appendix B, Tab D, pages IV.3 and IV.4, <u>2. Transmission Charges</u> : "The External Transmission Charge will recover on a fully reconciling basis the FERC-approved billings to the Company associated with the Regional Transmission Group, an Independent System Operator or any other transmission provider and which the Company has authorization to recover from retail customers."
B.	NEP COMPREHENSIVE TRANSMISSION	❖ See A above.
C.	NEPOOL RN/TRANS. COSTS	❖ See A above.
D.	CONGESTION PURCHASES	❖ See A above.
E.	CONGESTION SALES	❖ See A above.
F.	OVER-DESIGNATION SALES	❖ See A above.
G.	NEP TRANS CREDIT	❖ See A above.
H.	MAINE ELECTRIC (NEW BRUNSWICK POWER)	❖ See A above.
I.	COST OF WORKING CAPITAL	❖ Recovery provided per DTE Order dated December 2, 2002 in DTE 02-24/25. ❖ See SCHEDULE KMA-4, page 6 of 7 for the calculation of Working Capital.

1

2 Q. What reconciliation period is included in this filing?

3 A. The filing includes actual costs and revenues from January 2002 through
4 September 2003, and estimated data from October 2003 through December 2004.

5

6 Q. For what period has the Department approved cost recovery?

7 A. The Department has approved recovery of costs through September 2001 (D.T.E.
8 01-103-A at 7). Costs from October 2001 through September 2002 were

1 reviewed in D.T.E. 02-84, which remains pending. Since cost data for October
2 2002 through December 2002 are required as part of this filing, rather than present
3 partial year data, FG&E is presenting the full year.
4

5 Q. Are there any other changes to presentation of the cost recovery mechanisms from
6 D.T.E. 02-84?

7 A. No.
8

9 Q. What is FG&E's proposed External Transmission Charge?

10 A. FG&E's proposed External Transmission Charge is \$0.00308 per kWh as shown
11 on Page 3 of Schedule KMA-4.
12

13 Q. How does this compare to FG&E's current External Transmission Charge?

14 A. FG&E's current External Transmission Charge is \$0.00362 per kWh. The
15 proposed rate is decreasing by \$0.00054 per kWh due to a reduction in the
16 reconciliation amount reflected in the rate and higher projected kWh.
17

18 Q. How is the External Transmission Charge calculated?

19 A. Consistent with FG&E's External Transmission Charge Tariff, the charge is
20 calculated based on a forecast of costs for 2004, with full reconciliation and

1 interest for any over- or under- recoveries in 2003. This calculation is
2 demonstrated on Page 3 of Schedule KMA-4.

3

4 Q. Is this the same methodology approved in D.T.E. 99-110 and D.T.E. 01-103?

5 A. Yes.

6

7 Q. Please describe Schedule KMA-4.

8 A. Schedule KMA-4 is FG&E's Monthly External Transmission Charge
9 Reconciliation. This schedule contains 7 pages. Pages 1 through 3 provide the
10 monthly and annual cost detail and end of year deferrals for 2002 through 2004.
11 As discussed above, page 3 also provides the calculation of the proposed rate.
12 Pages 4 and 5 provide the calculation of interest and monthly deferrals for 2002
13 through 2004. Page 6 provides the calculation of working capital costs. Page 7
14 provides a forecast of revenues for the period October 2003 through December
15 2004. Consistent with the Department's determination in D.T.E. 99-110, FG&E
16 has provided actual data through September 2003. The remainder is forecast.

17

18 Q. What is the proposed reconciliation amount?

1 A. As shown on Page 4, the proposed reconciliation amount is an under-collection of
2 \$51,194 based on actual data through September 2003, and forecast data through
3 December 2003.

4
5 Q. What is the expected balance at the end of 2004?

6 A. With the proposed External Transmission Charge of \$0.00308 per kWh effective
7 January 1, 2004, the balance is projected to be an under-collection of \$1,895 as
8 shown on Page 5.

9
10 Q. Are there any other considerations you would like to make special note of?

11 A. Yes, the cost forecast does not reflect any changes that may result from the
12 Regional Transmission Organization-New England filing made with the Federal
13 Energy Regulatory Commission (Docket Nos. RT04-2 and ER04-116) on October
14 31, 2003 or the companion Transmission Owners Return on Equity Filing (Docket
15 No. ER04-157) made on November 3, 2003. Those filings request an effective
16 date not earlier than March 1, 2004. While the filings may result in significant
17 changes in costs, FG&E has not reflected these in its forecast since the starting
18 date is undetermined and due to the difficulty in calculating and presenting an
19 estimate that may be reasonably supported at this time.

20

1 **VII. INTERNAL TRANSMISSION SERVICE COST ADJUSTMENT**

2 Q. What are the Internal Transmission Charge and the Internal Transmission Service
3 Cost Adjustment?

4 A. The Internal Transmission Charge, along with the Internal Transmission Service
5 Cost Adjustment, recovers on a fully reconciling basis all costs associated with
6 FG&E's transmission investments.

7

8 Q. Is this recovery approved by the Department and resident in any tariff filed by
9 FG&E?

10 A. Yes, it is. The Department approved the Internal Transmission Service Cost
11 Adjustment as part of FG&E's Restructuring Plan (Appendix B, Tab G, M.D.T.E.
12 No. 14), allowing the recovery, on a fully reconciling basis, of all transmission
13 charges applicable to retail customers under FG&E's FERC-approved Open
14 Access Transmission Tariff (OATT).

15

16 Q. Does the recovery permit FG&E to recover any other transmission-related costs?

17 A. Yes. It may recover all those costs applicable to FG&E's Pool Transmission
18 Facilities (PTF) revenue requirement as included in NEPOOL's OATT.

19

20 Q. What kinds of transmission investments does FG&E have?

1 A. FG&E's transmission investments are divided into two components, Non-Pool
2 Transmission Facilities (Non-PTF) and Pool Transmission Facilities (PTF).

3

4 Q. What are PTF?

5 A. PTF are those facilities that FG&E owns that are defined by NEPOOL and
6 included in the provision of transmission service through NEPOOL's Open Access
7 Transmission Tariff (OATT).

8

9 Q. What facilities constitute Non-PTF?

10 A. The remainder of FG&E's transmission investment other than facilities described
11 above is considered Non-PTF. These costs are included in the provision of
12 transmission service through FG&E's local OATT.

13

14 Q. Please match the costs that have been included in the Internal Transmission
15 Charge mechanism with the associated sections of FG&E's approved
16 Restructuring Plan and other relevant orders. Also, provide the location of these
17 costs in your schedules.

18 A. This information is provided in Table KMA-4, below.

19

20

21

TABLE KMA - 4		
Column	Costs from November 26, 2003 Electric Reconciliation Mechanism and Inflation Adjustment Filing SCHEDULE KMA-5, Pages 1 through 3	Correlation to Restructuring Plan
A.	Revenue Requirement, FG&E FERC OA	❖ See FG&E's approved Restructuring Plan, Appendix B, Tab D, page IV.3, <u>2. Transmission Charges</u> : "...the Internal Transmission Cost Adjustment will recover on a fully reconciling basis: 1) the transmission charges applicable to retail customers under the Company's FERC-approved Open Access Transmission Tariff....".
B.	Revenue Requirement, FG&E PTF	❖ See Restructuring Plan, Appendix B, Tab D, <u>2. Transmission Charges</u> , page IV.3: "...the Internal Transmission Cost Adjustment will recover on a fully reconciling basis: 1) the transmission charges applicable to retail customers under the Company's FERC-approved Open Access Transmission Tariff and 2) the Company's Pool Transmission Facilities revenue requirement as included in NEPOOL's Open Access Transmission Tariff....".

1

2 Q. When do FG&E's FERC Open Access ("OA") costs normally change?

3 A. FG&E's FERC OA Revenue Requirement is based on a test year amount and,
4 therefore changes are made only upon filing and approval by FERC.

5

6 Q. When do FG&E's PTF costs normally change?

7 A. In accordance with NEPOOL's OATT, the revenue requirements are updated
8 annually, effective June 1 of the following year. Therefore, FG&E updates the

1 monthly amounts it uses in its reconciliation effective June 1 each year to
2 correspond with NEPOOL's changes.

3

4 Q. Didn't FG&E recently file changes to its OA Revenue Requirement with FERC?

5 A. Yes, on September 30, 2003, FG&E filed revisions to its Open Access
6 Transmission Tariff proposing to revise its rates to establish and implement an
7 annual formula rate. These revised rates will replace the current stated rate. As
8 indicated in D.T.E. 02-84, with a formula rate in place, in future base rate
9 proceedings FG&E will be able to calculate its distribution revenue requirement
10 by determining the cost of distribution and transmission bundled together, and
11 then subtracting the amount allowed by FERC under the formula rate. This
12 should resolve the inconsistency that the Department was concerned with in
13 D.T.E. 02-24/25.

14

15 Q. What is the status of that filing?

16 A. FG&E proposed that its new rates and corresponding revenue requirement
17 become effective on October 1, 2003. The filing is pending FERC approval.

18

19 Q. How does the FERC filing affect this filing?

1 A. FG&E has reflected the revised revenue requirement in its cost forecast effective
2 October 1, 2003. The Internal Transmission Charge is fully reconciling, and will
3 therefore be reconciled to the final FERC-approved amount.

4
5 Q. What reconciliation period is included in this filing?

6 A. The filing includes actual cost and revenues from January 2002 through
7 September 2003, and estimated data from October 2003 through December 2004.

8
9 Q. For what period has the Department approved cost recovery?

10 A. The Department has approved recovery of costs through September 2001 (D.T.E.
11 01-103-A at 7). Costs from October 2001 through September 2002 were
12 reviewed in D.T.E. 02-84, which remains pending. Since cost data for October
13 2002 through December 2002 are required as part of this filing, rather than present
14 partial year data, FG&E is presenting the full year.

15
16 Q. Any there any other changes to presentation of the cost recovery mechanisms from
17 D.T.E. 02-84?

18 A. No.

19
20 Q. What is FG&E's proposed Internal Transmission Service Cost Adjustment?

1 A. FG&E's proposed Internal Transmission Service Cost Adjustment is \$0.00044 per
2 kWh, as shown on Page 3 of Schedule KMA-5.

3

4 Q. How does this compare to FG&E's current Internal Transmission Service Cost
5 Adjustment?

6 A. FG&E's current Internal Transmission Service Cost Adjustment is \$0.00005 per
7 kWh. The proposed rate is increasing by \$0.00039 per kWh. The increase is due
8 to the proposed increase in FG&E's OA revenue requirement pending before
9 FERC.

10

11 Q. How is the Internal Transmission Service Cost Adjustment calculated?

12 A. Consistent with FG&E's Internal Transmission Service Cost Adjustment Tariff,
13 the charge is calculated based on a forecast of costs for 2004, with full
14 reconciliation and interest for any over- or under- recoveries in 2003. This
15 calculation is demonstrated on Page 3 of Schedule KMA-5.

16

17 Q. Is this the same methodology approved in D.T.E. 99-110 and D.T.E. 01-103-A?

18 A. Yes.

19

20 Q. Please describe Schedule KMA-5.

1 A. Schedule KMA-5 is FG&E's Monthly Internal Transmission Charge
2 Reconciliation. This schedule contains 7 pages. Pages 1 through 3 provide the
3 monthly and annual cost detail and end of year deferrals for 2002 through 2004.
4 Page 3 provides forecasted cost data for 2004. As discussed above, page 3 also
5 provides the calculation of the proposed rate. Pages 4 through 5 provide the
6 calculation of interest and monthly deferrals for 2002 through 2004. Pages 6 and
7 7 provide the forecast of revenues for the period October 2003 through December
8 2004. Consistent with the Department's determination in D.T.E. 99-110, FG&E
9 has provided actual data through September 2003. The remainder is forecast.

10
11 Q. What is the proposed reconciliation amount?

12 A. As shown on Page 4, the proposed reconciliation amount is an under-collection of
13 \$19,794 based on actual data through September 2003, and forecast data through
14 December 2003.

15
16 Q. What is the expected balance at the end of 2004?

17 A. With the proposed Internal Transmission Service Cost Adjustment of \$0.00044
18 per kWh effective January 1, 2004, the balance is projected to be an under-
19 collection of \$2,121, as shown on Page 5.

1 **VIII. CONCLUSION**

2 Q. Does this conclude your testimony?

3 A. Yes.